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RHMFISS/DEPT OF ENERGY WASHINGTON DC  
RUEHC/DEPT OF INTERIOR WASHINGTON DC  
RHEHAAA/NSC WASHINGTON DC

UNCLAS MEXICO 002440

SENSITIVE, SIPDIS

STATE FOR WHA/MEX, WHA/EPSC  
STATE FOR EEB/ESC, OES/OPA, L/OES  
DOE FOR A/S SANDALOW, G.WARD AND A.LOCKWOOD

E.O. 12958: N/A

TAGS: [ECON](#) [ENRG](#) [EINV](#) [PGOV](#) [SENV](#) [MX](#)

SUBJECT: SECRETARY KESSEL AND AMBASSADOR DISCUSS BILATERAL ENERGY COOPERATION

¶1. (SBU) Summary: Energy Secretary Georgina Kessel told Ambassador Pascual August 13 that Mexico is eager to continue working with the US on carbon capture and storage, energy efficiency, standards, a bilateral market for renewable energy, and gas flaring. Kessel emphasized the need for an action plan with concrete projects and priorities. The Ambassador and Kessel agreed that it would be useful to have the Bilateral Framework for Clean Energy and Climate Change working group meet before the end of 2009, recognizing the schedule will get harder the closer we get to Copenhagen. End Summary.

¶2. (SBU) The Ambassador's August 13 courtesy call on Secretary Kessel allowed for a candid discussion on the broad range of energy topics between the US and Mexico. Kessel's Chief of Staff Carlos Petersen, Director General for International Affairs Aldo Flores, and Econoff also participated in the meeting. Mexico's proposal to negotiate a bilateral agreement on trans-boundary reservoirs, a primary focus of the meeting, is discussed septel.

¶3. (SBU) Secretary Kessel noted that the GOM looks forward to collaborating with the USG on carbon capture and storage (CCS). At the North American Leaders Summit, the three countries agreed to produce a North American Carbon Atlas to create a uniform mapping methodology and to facilitate data sharing. The GOM has been in contact with Mario Molina, a Mexican Nobel Prize laureate who advises both the USG and GOM on climate change, and is considering a demonstration or pilot project. According to Kessel, the Mexican focus for CCS is on carbon emissions from heavy fuel oils (also known as bunker C) for electricity generation. She added that funding for pilot projects is still an issue. The Ambassador commented that the US Trade Development Agency, OPIC, or EXIM may be able to assist with financing for these projects. The Ambassador added that the United Arab Emirates have some impressive CCS projects in the Persian Gulf which inject carbon to increase gas production. Kessel responded that such initiatives could be of interest to Mexico and asked her team research these options.

¶4. (SBU) Kessel commented that energy efficiency projects offer the greatest opportunities to reduce carbon emissions in the short run. She emphasized that Mexico is particularly interested in continuing trilateral collaboration on harmonized energy standards - both to save energy and to increase North American competitiveness. If we cannot make progress trilaterally, Kessel noted, the US and Mexico should proceed bilaterally. The Ambassador agreed that standards is a promising area and asked how we can best advance our objectives. Kessel asked for assistance in getting the right agencies from governments involved in the discussion including the Ministry of Economy in Mexico and EPA in the US.

¶5. (SBU) Turning to renewable energy, Kessel said Mexico has significant potential, but that renewable energy generation was growing more slowly than she would like, due to resistance from the Commission Federal de Electricidad (CFE - Mexico's state owned

electricity monopoly). The pace will pick up now, Kessel asserted. Through the energy reform passed last year, CFE will introduce new electricity tariffs to encourage renewable energy generation.

16. (SBU) Commenting that cross border transmission of renewable energy offers tremendous opportunities, Kessel highlighted the Sunrise Powerlink Corridor as an example of what can be achieved. (Note: Sunrise Powerlink is a renewable energy transmission corridor that will supply San Diego with solar, geothermal, and wind energy generated in Baja California. San Diego Gas and Electric Company is building the transmission corridor to help the city comply with the Energy Policy Act, the 20 Percent Renewable Energy Bill by 2010, and the California Global Warming Solutions Act. End Note) The Ambassador and Kessel agreed that structuring pricing policies that compare the marginal costs of renewable energy to the marginal costs of other sources of energy is a key to promoting renewable energy.

17. (SBU) The Ambassador and Kessel agreed that the Bilateral Framework on Clean Energy and Climate Change provides a useful framework for cooperation on renewable energy. Both agreed that it would be useful to hold a meeting of the bilateral working group to discuss how to move the framework forward. Kessel added that she would prefer to keep discussion of trans-boundary reservoirs separate from the bilateral framework.

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